

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric
Company for Recovery of Pre-Deployment
Costs of the Advanced Metering
Infrastructure (AMI) Project.

(U 39 M)

Application 05-03-016
(Filed March 15, 2005)

**ASSIGNED COMMISSIONER'S RULING
LAYING OUT APPROACH TO THE CASE, SCHEDULING A
PREHEARING CONFERENCE AND OTHER PROCEDURAL MATTERS**

On March 15, 2005, Pacific Gas and Electric Company (PG&E) filed an application seeking authorization of its advanced metering infrastructure (AMI) deployment proposal and associated cost recovery mechanisms.¹ PG&E recommends full-scale implementation of AMI and requests expedited approval to commence start-up and design efforts associated with the full-scale implementation in third quarter 2005. Specifically, PG&E seeks approval of (1) the expected costs of its planned "pre-deployment" activities during 2005 and 2006, (2) its pre-deployment plan, and (3) its proposed cost recovery mechanism. PG&E expects that the pre-deployment costs, which are primarily for systems integration of the investment to be in excess of \$49 million. PG&E requests a decision by June 30, 2005. PG&E intends to file its proposed deployment strategy and estimated costs of deployment in summer 2005. Under its proposed schedule, PG&E would commence meter installation in first quarter 2006, after approval of its yet to be filed application.

¹ AMI consists of both metering and communications infrastructure.

After reviewing the issues raised by the application and discussing procedural options with the assigned Administrative Law Judge (ALJ) and Commissioner Grueneich who is the Assigned Commissioner to A.05-03-015 (the San Diego Gas & Electric Company (SDG&E) application), I have decided to provide upfront guidance, in advance of the prehearing conference, about how the case will be handled. Commissioner Grueneich issued a ruling providing similar guidance for SDG&E on May 9, 2005. I am also the Assigned Commissioner for A.05-03-026, the application by Southern California Edison Company (SCE). SCE proposes an entirely different approach to investing in AMI that I will address in a subsequent ruling.

PG&E, like SDG&E, has suggested that we separate our processing of the decision on its AMI investment into two phases. The first would address the proposed pre-deployment plans and costs and the second would address the cost-effectiveness and merits of deploying AMI as proposed. PG&E plans a later application for the second aspect. In addition, all three utilities have proposed adopting different types of technologies which require more or less development time before they can be installed, raising the question of whether the proposed systems are sufficiently compatible to form the open network architecture that we desire.

Under this two-phase approach, upon authorization of pre-deployment costs, PG&E would move forward with its systems integration work, anticipating a positive outcome on the cost-effectiveness part of the proceeding. The trouble with this approach is that if the Commission were to ultimately decide that the cost-effectiveness of the proposed investment is insufficient to warrant the investment, significant ratepayer funds could already have been sunk. We are not fully comfortable separating the decision on pre-deployment costs from the

decision on the merits of the full investment, but on the other hand, we want to continue to encourage the utilities to consider investing in AMI as an important tool to achieving improved operational efficiencies and cost savings and to enabling demand response opportunities. PG&E could of course make the determination that the benefits of their proposed deployment so outweigh the costs that it should proceed with the investment at shareholder risk, as it does for many capital investments, but it has not done so here.

I have reached the conclusion that there are three primary issues that the Commission must decide before pre-approving any utility's actual deployment of AMI. First, we must be able to make an affirmative finding that the proposed systems meet the functionality criteria set forth in the Joint Assigned Commissioner and Administrative Law Judge's Ruling Providing Guidance for the Advanced Metering Infrastructure Business Case Analysis issued February 19, 2004 in Rulemaking (R.) 02-06-001. Second, we must be able to make an affirmative finding that the proposed investment provides sufficient operational benefits to ratepayers to move forward with implementation. This finding may not require that 100% of the costs of AMI deployment be covered by operational savings, but that some sufficient threshold is met for us to be confident that future demand response benefits would result in a cost effective AMI investment. Third, we must make an affirmative finding that the utility has a serious plan for accomplishing the task of integrating the AMI investment into its operating systems to ensure that the expected benefits in the areas of customer service, billing, outage management, and operations and maintenance accrue.

All three of the above findings must be made for us to pre-approve the investment of ratepayer funds for full scale AMI deployment. In order to approve the expenditure of ratepayer funds in advance of findings on the second

and third points above, i.e., for pre-deployment, we must at a minimum be confident that the proposed investment meets the minimum functionality criteria specified in the February 19, 2004 Ruling in R.02-06-001.² Therefore, I am directing PG&E to serve supplemental testimony on May 31, 2005 that specifically addresses how its proposed technology/deployment plan meet the functionality criteria set forth in the February 19, 2004 Ruling. PG&E should address in this testimony whether its proposed AMI system can accommodate Broadband over Power Line (BPL) deployment or whether PG&E's communications technology choices set forth in the application would result in stranded investment if BPL were deployed in the future. The supplemental testimony should also address how PG&E's technology choice will accommodate the need for additional net metering capability over time. It is my intent to minimize, to the extent possible, the amount of pre-approved ratepayer funds that is spent in advance of a decision on the merits of deploying AMI as proposed by PG&E, so the proposed decision on functionality will also address the pre-deployment costs and task schedule put forward in Appendix A of PG&E's testimony. In their testimony, parties should address the costs and tasks proposed for pre-deployment and put forward their recommendations for what, if any, amount of the requested pre-deployment funds should be approved and their recommended ratemaking treatment of any pre-deployment funds.

Rather than spend a significant amount of time addressing pre-deployment matters, I hope to move us forward straight to the merits of the case in chief, whether we should approve PG&E's AMI deployment plan and costs, which will be filed in an upcoming application. Therefore, the approach that the ALJ and I have developed would allow us to make an initial finding on whether

² Appendix A lists the functionality criteria for reference.

the application meets the minimal functionality criteria and authorize a small amount of ratepayer pre-deployment funds to allow for continued forward momentum while we consider the merits of the full application. The schedule below covers only the first phase because PG&E has not yet filed its case in chief.

- May 31, 2005 Supplemental Utility Testimony on Functionality
- June 13, 2005 Intervenor Testimony on Functionality, Pre-Deployment Task and Cost Schedule
- June 17, 2005 Rebuttal Testimony
- June 23, 2005 Prehearing Conference for Functionality Phase
- June 27, 2005 Evidentiary Hearing on Functionality and Pre-Deployment Task and Cost Schedule (2-4 days)
- July 25, 2005 Opening Brief
- August 1, 2005 Reply Brief
- September 6, 2005 Proposed Decision Issued
- October 6, 2005 Commission Decision on Functionality Phase

As described in Commissioner Grueneich's ruling, the ALJ and I have also been thinking about ways that our review of the costs and benefits of the upcoming application on PG&E's AMI investment can be made most efficient and timely. Although parties will inevitably take issue with the cost and benefit calculations used for the operational savings to be derived from AMI, I agree with Commissioner Grueneich that the most difficult aspect of this review will be of the benefits we can expect from demand response. Rather than having the parties spend time and resources litigating the demand response forecasts and assumptions (energy costs, tariff structures, participation levels, actual response, statutory constraints, etc.), I would rather see the parties focus on the operational costs and benefits side of the AMI investment and on other potential non-demand response costs and benefits that have not yet been quantified.

Therefore, I also am considering whether to establish some minimum threshold that operational benefits must meet (for example, 85% of reasonably forecasted costs) and forgo additional review of the demand response benefits for purposes of deciding whether to approve the investment. At the June 23, 2005 prehearing conference, parties should be prepared to discuss this idea and how it might impact the timing of the consideration of the case in chief and procedural suggestions for establishing the minimum threshold.

Therefore, it is **RULED** that:

1. Pending establishment of an official service list at the prehearing conference, parties shall serve testimony on the unofficial service list (available from the Commission's Process Office) and by email on the service list for Rulemaking 02-06-001.
2. PG&E shall serve supplemental testimony on May 31, 2005 addressing how its proposed technology/deployment plan meets the functionality criteria set forth in the February 19, 2004 Ruling in R.02-06-001.
3. PG&E's supplemental testimony shall also address the impacts of deployment of broadband over powerline and the need for additional net metering capability on its technology choices.
4. Testimony by other parties on functionality, pre-deployment task and cost schedules shall be served on June 13, 2005. Rebuttal testimony shall be served on June 17, 2005.
5. A prehearing conference is scheduled for June 23, 2005 at the Commission headquarters in San Francisco.

6. At the June 23, 2005 prehearing conference, parties should be prepared to discuss the concept of establishing a minimum threshold of operational benefits that the proposed AMI investment must meet and how this idea might impact the timing of processing the case in chief.

Dated May 18, 2005, at San Francisco, California.

/s/ MICHAEL R. PEEVEY

MICHAEL R. PEEVEY
Assigned Commissioner

APPENDIX A: FUNCTIONALITY CRITERIA

(From February 19, 2004 Ruling in Rulemaking 02-06-001, pp.3-4)

The AMI system analyzed should support the following six functions:

1. Capable of supporting the following price responsive tariffs for:
 - a. Residential and Small Commercial Customers (<200kW) on an opt out basis:
 - i. Two or Three Period Time of Use (TOU) rates with ability to change TOU period length;
 - ii. Critical Peak Pricing with fixed (day ahead) notification (CPP- F);
 - iii. Critical Peak Pricing with variable or hourly notification (CPP-V) rates;
 - iv. inverted tier or flat rates.
 - b. Large Customers (200 kW to 1 MW) on an opt out basis:
 - i. CPP; [fixed or variable notification]
 - ii. TOU;
 - iii. Two part hourly Real Time Pricing (RTP)
 - c. Very large customers (over 1 MW) on an opt out basis:
 - i. Two part hourly real-time pricing (RTP);
 - ii. Critical peak pricing (CPP); [fixed or variable notification]
 - iii. Time-of-Use (TOU) Pricing
2. Collection of energy usage data at a level of detail (interval data) that supports customer understanding of hourly usage patterns and how those usage patterns relate to energy costs
3. Customer access to personal energy usage data with sufficient flexibility to ensure that changes in customer preference of access frequency do not result in additional AMI system hardware costs.
4. Compatible with applications that provide customer education and energy management information, customized billing, complaint resolution.

5. Compatible with utility system applications that promote and enhance system operating efficiency and improve service reliability, such as remote meter reading, outage management, reduction of theft and diversion, improved forecasting, workforce management, etc.
6. Capable of interfacing with load control communication technology.

(END OF APPENDIX A)

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Assigned Commissioner's Ruling Laying Out Approach to the Case, Scheduling a Prehearing Conference and Other Procedural Matters on all parties of record in this proceeding or their attorneys of record.

Dated May 18, 2005, at San Francisco, California.

/s/ TERESITA C. GALLARDO

Teresita C. Gallardo

N O T I C E

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